

DEPARTMENT OF FINANCE BILL ANALYSIS

AMENDMENT DATE: January 21, 2010
POSITION: Oppose
SPONSOR: Irvine Ranch Water District

BILL NUMBER: SB 613
AUTHOR: T. Harman

BILL SUMMARY: Irvine Ranch and Santa Margarita Water District

Current law authorizes the formation of improvement districts, which are geographical subdivisions through which water districts can fund capital improvements that benefit those specific areas. Water districts, with a two-thirds vote of the property owners in an improvement district, may issue general obligation bonds which are secured by property tax revenues above the standard one percent rate.

The Irvine Ranch Water District (IRWD) and the Santa Margarita Water District (SMWD) provide water and sewer service to approximately 480,000 residents within a service area of over 177,000 acres in Orange County. When issuing general obligation bonds for improvement districts, IRWD and SMWD typically purchase credit enhancement, like bond insurance or a letter of credit, to provide additional security for the bonds, which would then carry a lower interest rate, thus lowering the districts' borrowing costs. Recent adverse conditions in the credit markets are making it more difficult for IRWD and SMWD to purchase affordable third-party credit enhancement for their improvement districts' general obligation bonds.

This bill would grant IRWD and SMWD the authority to pledge their general revenues towards the payment and security of their improvement districts' general obligation bonds, in lieu of a third-party credit enhancement, and would require each district, by January 1, 2014, to report back to the state describing the district's use, if any, of that authority.

FISCAL SUMMARY

Finance estimates this bill would have no state General Fund impact.

To the extent that the pledge of the districts' general revenues results in bonds bearing lower interest rates, improvement districts could incur reduced borrowing costs. In the event that an improvement district defaults on its bonds, rate-payers and property owners outside the improvement district's boundaries could become responsible for the debt with no opportunity to vote on or approve the bond issue or the credit enhancement guarantee.

COMMENTS

Finance opposes this bill for the following reason:

- In the event that an improvement district defaults on its bonds, rate-payers and property owners outside the improvement district's boundaries could become responsible for the debt with no opportunity to vote on or approve the bond issue or the credit enhancement guarantee.

Analyst/Principal (0762) C. Hill	Date	Program Budget Manager Mark Hill	Date
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Department Deputy Director	Date
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Governor's Office:	By:	Date:	Position Approved _____
			Position Disapproved _____

BILL ANALYSIS Form DF-43 (Rev 03/95 Buff)

BILL ANALYSIS/ENROLLED BILL REPORT--(CONTINUED)

AUTHOR

AMENDMENT DATE

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Code/Department Agency or Revenue Type	SO	(Fiscal Impact by Fiscal Year)							Fund Code
	LA	(Dollars in Thousands)							
	CO	PROP							
	RV	98	FC	2009-2010	FC	2010-2011	FC	2011-2012	
0001/Major Rev	SO	No		-----	No/Minor	Fiscal Impact	-----	0001	